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ARIZONA CORPORATION COMMISSION

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October 3, 2006

Chairman Hatch-Miller
Commissioner Gleason
Commissioner Mayes
Commissioner Wong
Parties to the Docket

Re: APS' Application for a Rate Increase; Docket No. E-01345A-05-0816
Palo Verde Nuclear Outages During Summer 2005; Docket No. E-01345A-0826
Fuel and Purchased Power Practices of APS; Docket No. E-01345A-05-0827

Dear Colleagues and Parties to the Docket:

In Decision No. 67744 (April 7, 2005), the Commission found that APS' "traditional demand response programs that define 'off-peak' hours as between 9:00 p.m. to 9:00 a.m. are ineffective in creating an incentive to residential ratepayers to shift their consumption to 'off-peak' hours."¹ As a result of this finding, APS (Company) was ordered to develop new Time of Use ("TOU") programs with peak and off-peak periods that more accurately reflect APS' actual summer peak, which occurs between 3:00 p.m. and 6:00 p.m. The purpose behind the development of the new TOU tariffs ET-2 and ECT-2, which were filed in compliance with Decision No. 67744 and approved in Decision No. 68645, was to increase customer participation in TOU programs in order to "smooth the load shape and *reduce* the peak demand."²

At the upcoming hearing in APS' general rate case, I want the parties to provide testimony on the response of customers to the new TOU rates and potential discontinuance of the old TOU rates ET-1 and ECT-1. I am also interested in hearing what steps the Company is taking to encourage customers to enroll in TOU programs, such as the Company's explanation of how TOU rates function and their potential for reducing customer bills.

Thank you for your attention to this matter.

Sincerely,

A handwritten signature in cursive script that reads "William A. Mundell".

William A. Mundell, Commissioner
Arizona Corporation Commission

cc: Brian McNeil
Ernest Johnson
Lyn Farmer
Chris Kempley
Heather Murphy

¹ Decision No. 67744, Page 22, Lines 22-24.

² Decision No. 68645, Page 4, Line 13.